

# BELARUSIAN MONTHLY ECONOMIC REVIEW



IPM RESEARCH CENTER  
Research • Forecasting • Monitoring

**No. 2 (77)  
February 2009**

- A meeting between the Presidents of Belarus and Ukraine took place.
- Making the regulation of the currency market more rigorous.
- Deficit in trade with non-CIS countries.
- Decrease of the international reserves.

## Politics: The meeting between the Presidents of Belarus and Ukraine

In January, the meeting between the Presidents of Belarus and Ukraine, A. Lukashenka and V. Yushchenko took place. Cooperation in the energy sphere was one of the major topics, and more precisely, the opportunities of establishment of the Baltic and Black Sea transport corridor, i.e. providing supply of the crude oil through the pipeline Odessa-Brody was discussed. Moreover, the parties agreed on reviving the imports of Ukrainian electrical energy by Belarus that was suspended because of the price differences.

In February, the sitting of the Supreme Council of the Union State of Belarus and Russia took place. During it, the agreement on joint air defense was signed and the parties agreed to launch a plan of making Russian Ruble a regional reserve currency. Furthermore, a principal agreement between parties on providing to Belarus a loan in Russian rubles for settlements in this currency in bilateral trade was achieved. At the same time Russian officials interpreted the latter as the agreement on the introduction of the Russian Ruble as the new currency by Belarus, which was denied by the Belarusian party. Overall, in the beginning of 2009, the actions of the authorities in the foreign policy were aimed at the search for the new loans and investments at the different geopolitical directions.

## Real sector: A sharp deterioration of the corporate finance in the end of 2008

In 2008, the GDP grew by 10.0%, which is 1.4 percentage points more than in 2007. But in the 4<sup>th</sup> quarter of 2008, the growth rate was much lower (7.5% yoy). Lower growth rates were driven by lower rates of industrial production growth – in 4<sup>th</sup> quarter of 2008 it grew by 1.8% yoy (13.2% yoy in the 3<sup>rd</sup> quarter of 2008). In Nov-Dec, that was the period of unfavourable dynamics of both domestic and foreign demand, the industrial production however kept on growing. During this month, a sharp decrease of the industrial production deflator took place – from 28.6% yoy in October down to 3.2% yoy in November and -9.5% yoy in December, which contradicts to the dynamics of the producers prices. But if using the deflators balanced with the PPI, the result will mean that the industrial production dropped in November by 9-14% and by 19-23% in December (and grew only by about 7-8% in annual terms).

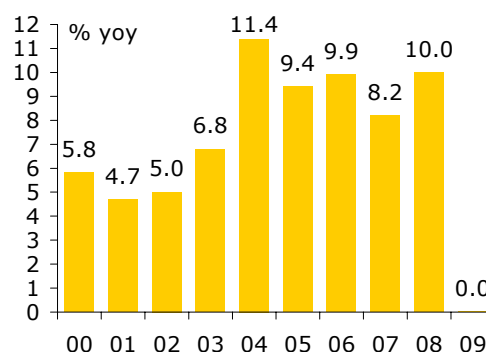
The deterioration of the corporate finance became one more consequences of the crisis. In Oct-Nov, the profit decreased by 2.9% yoy, while profitability by 1.7 percentage points. Most radical was the drop of the profit in industrial production (by 48.3% yoy), while the ferrous metal production, tractors and agricultural machines productions faced net losses. It is evident that this dynamics reflects the decrease of the exports and poses a threat for further investments.

## Structural trends: Making the regulation of the currency market more rigorous

In the end of January, the NBB send a letter that has a status of the normative act, which makes some procedures at the domestic currency market more rigorous. First, banks are

**Population: 9.69 m**  
**Industry / GDP: 26.7%**  
**Agriculture / GDP: 7.4%**  
**Investment / GDP: 26.3%**  
**Export destination: Russia 37%, EU 44%**  
**Import origin: Russia 60%, EU 22%**

**Real GDP growth**



Source: Ministry of Statistics and Analysis. Forecast for 2009: IPM Research Center.

IPM Research Center

German Economic Team  
in Belarus

505 Zakharova St., Minsk 220088, Belarus  
Tel./fax (+375 17) 210 0105  
E-mail: [bmer@research.by](mailto:bmer@research.by)  
Internet <http://research.by/>

© IPM Research Center, 2009

recommended to satisfy the demand of the firms just at the off-exchange segment of the market. Second, banks now must provide a daily reports to the NBB on a net opened currency positions and on the reasons that did not allow to satisfy the firms demand for the foreign currency at the off-exchange market. Third, they will have to report about the measures undertaken in order to borrow foreign currency from abroad. These measures of the NBB are determined by banks' operations directed to purchase hard currency at the expense of their own funds during last months when the pressure on the exchange peg strengthened. Thus, NBB tries with administrative measures to redirect this hard currency purchased by banks as an additional source of the supply at the domestic market. These measures by the NBB witness about increasing constraints at the currency market and about further pressure on the exchange rate peg.

### Foreign trade: The deficit in trade with non-CIS countries

In Jan-Nov, the deficit of merchandize trade amounted to USD 5.4 bn, having grown by 48.1% yoy (47.0% yoy in Jan-Oct). During the whole period, the exports grew by 43.4% yoy, while the imports by 44.1% yoy. However, in November both the exports and imports declined in comparison to the same period of 2007 (by 19.1 and 11.4% yoy correspondingly). The most drastic decrease took place in trade with Russia: exports dropped by 28.5% yoy, while imports by 28.9% yoy. It was driven by both decrease of prices and physical volumes of trade. The most severe decrease of demand affected the machine building industry: the supply of trucks to Russia in November was at the level of 30.2% in comparison to the average supply during Jan-Oct, the supply of truck-tractors at 31.6% and tractors at 73.6%.

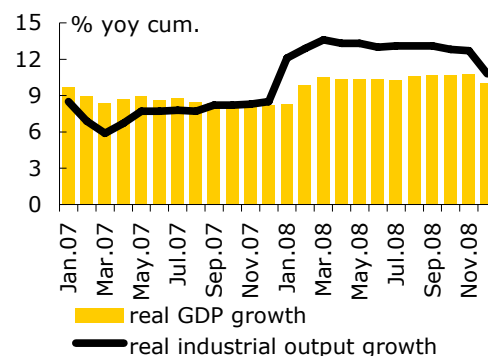
At the non-CIS markets, the first drop of exports (by 12.1% yoy) in 2008 took place as well, which was mainly determined by price dynamics. Substantial decrease of the physical volume took place only in trade with potash fertilizers, which supply was about 51.6% from the average volume of Jan-Oct. Imports from non-CIS countries grew in November by 24.7% yoy, though it was lower than in October by 20.4% mom, which reflected the decrease in imports physical volume. Finally, in November the deficit of trade with non-CIS countries amounted to USD 11.5 m, though traditionally this geographical destination provides a huge profit of trade. Thus, the world crisis led to severe deterioration of the foreign trade with non-CIS countries as well.

### Public finance: Approval of the plan of the tax system simplification

In Jan-Nov, the consolidated revenues amounted to 51.1% of GDP that is by 1.9 percentage points higher than in Jan-Nov 2007. The consolidated expenditures decreased in comparison to Jan-Nov 2007 by 0.7 percentage points and amounted to 45.3% of GDP. Finally, the surplus of 5.8% of GDP was formed in Jan-Nov 2008 (3.2% of GDP in Jan-Nov 2007).

The government's plan on liberalization of the business environment also includes reforms of the taxation system. Besides the intention to abolish the tax levy in support of agricultural producers, the government plans to abolish the tax on purchasing transport vehicles, sales and services tax, and also local special levies that may achieve up to 3% of the profit. If these measures have been undertaken, it will lead to the reduction of the tax burden in the economy, however, the issue about the compensation of the correspondent consolidated revenues will come at the agenda.

### GDP and Industrial Output



Source: National Statistical Committee.

### Profitability in Industry

	Oct-Nov:		Change
	2007	2008	
<b>Industry</b>	<b>12.7</b>	<b>6.1</b>	<b>-6.6</b>
Electric power	-2.1	0.0	2.1
Fuel	9.4	13.0	3.6
Ferrous metallurgy	10.0	-21.2	-31.2
Chemical and petrochemical industry	24.6	15.5	-9.0
Machinery and metalworking	14.0	3.0	-11.1
Logging, woodworking, pulp and paper	12.9	5.4	-7.5
Building materials	12.6	16.8	4.3
Light	9.7	10.6	1.0
Food	11.9	-2.4	-14.2

Note. Change is given in percentage points.

Source: calculations based on the National Statistical Committee.

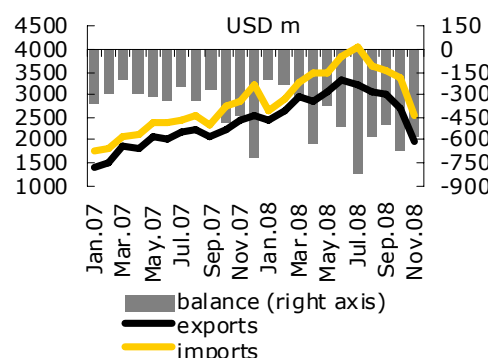
### Contribution of Aggregate Demand Components to GDP Growth

	3q	4q	Change
	2008	2008	
<b>GDP</b>	<b>11.2</b>	<b>7.5</b>	<b>-3.7</b>
Household consumption	11.8	5.3	-6.5
Fixed capital accumulation	6.4	9.0	2.6
Net exports + statistical discrepancy	-8.5	-9.2	-0.7
Other components	1.5	2.4	0.9

Note. Change is given in percentage points.

Source: calculations based on the National Statistical Committee. Contribution of components of aggregate demand in 4th quarter- estimations by IPM Research Centre.

### Merchandise Trade



Source: National Statistical Committee.

### Monetary policy: Drop of the international reserves

In December, net foreign assets of the monetary authorities dropped by 21.3% mom (by USD 867.1 m). Trying to limit the pressure at the currency market, the NBB restricted the banks' refinancing and hence its claims on banks reduced by 37.4% mom. Furthermore, in December a huge decrease of the government's deposits in foreign currency took place (by 44.0% mom), which resulted in increasing money supply. As a result, base money in December grew by 1.5% mom, while in annual terms its growth rate amounted to 11.7% yoy (41.9% yoy in November).

A substantially increased demand for foreign currency led to further reduction of the liquidity level in the banking system. Furthermore, in December banks purchased hard currency for their own funds actively, which reflected the devaluation expectations. In these conditions a further increase of the interest rates at both interbank and credit and deposit market took place, which was accompanied by credit rationing. Hence, in December the deceleration of credit to real sector growth was kept on and it amounted to 54.9% yoy (56.1% yoy in November). Cash in circulation decreased by 7.2% mom, while in annual terms its growth rate amounted to 15.4% yoy (33.8% yoy in November). Moreover, in December a reduction of households' ruble time deposits took place (by 12.6% mom), while its annual growth rate reached 13.7% yoy (33.0% yoy in November). However, decreasing trust to the national currency was not equal to the trust to the banking system – the outflow of households' ruble deposits was compensated by inflow of their foreign currency deposits, and also enterprises increased their deposits. Finally, in December, ruble money grew by 6.8% mom, while broad money by 8.1% mom. In annual terms their growth rates amounted to 28.0 and 30.2% yoy correspondingly (31.4 and 28.3% yoy in November).

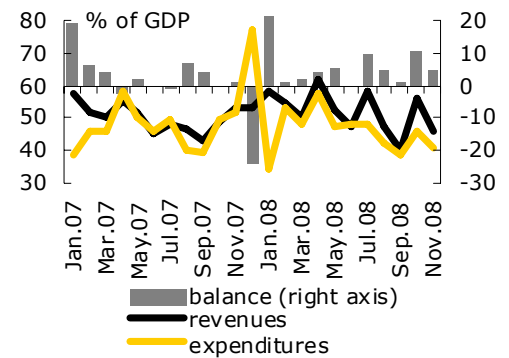
Consumer prices in December grew by 1.2% mom and in annual terms inflation amounted to 13.3% yoy (14.7% yoy in November). Belarusian ruble in December was devaluated to US dollar by 1.9% and as of December, 31 its exchange rate was 2200 USD/BYR. Further immediate devaluation of the Belarusian ruble led to additional preconditions for growing prices in the national economy.

### Banking sector: New recommendations for banks by the government and the NBB

In December, the government adopted a Regulation in which it gives tasks for individual banks on providing loans to the real sector. In previous years such recommendations were given only to the state-owned banks, but now the private banks including foreign ones were touched as well. Later, the NBB adopted one more Regulation, where it gives recommendations to banks on increasing loans, borrowed funds and normative capital. The NBB gives a string recommendation to banks to increase foreign borrowings, which is needed for forming liabilities and providing foreign currency at the domestic market. These recommendations were given at the background of deteriorating liquidity stance of the Belarusian banks and decreasing quality of their assets. Hence, these measures may lead to spill over of the pressure at the currency market to wider problems in the whole banking system. Furthermore, these measures contradict to the agreement signed with IMF.

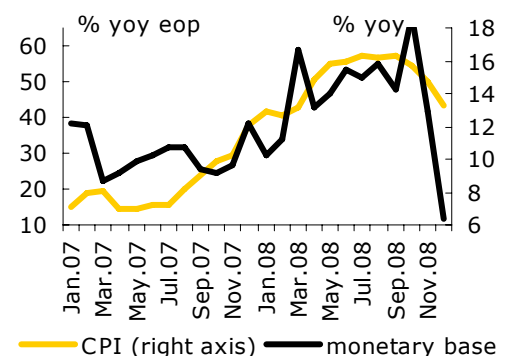
For solving the problem of the hard currency deficit the government began to sign agreements assuming cooperation in the external trade financing with foreign bank itself. Such agreements were signed with French bank Societe General and Russian Vnesheconombank and Sberbank.

### Consolidated Budget



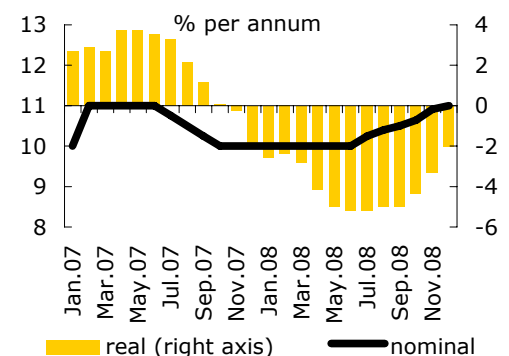
Source: calculations based on the National Statistical Committee data.

### Monetary Base and CPI



Source: calculations based on the National Statistical Committee and the NBB data.

### Refinancing rate



Source: calculations based on National Statistical Committee and the NBB data.

Economic Trends		Q1 07	Q2 07	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08	Q4 08	Oct. 08	Nov. 08	Dec 08
GDP growth	% yoy	8.4	8.9	8.4	7.3	10.9	10.1	11.2	7.5			
GDP growth	% yoy cum.	8.4	8.6	8.4	8.2	10.9	10.4	10.7	10.0	10.7	10.8	10.0
Industrial Production	% yoy cum.	5.9	7.7	8.2	8.5	14.7	13.0	13.1	10.8	12.8	12.7	10.8
Agricultural Production	% yoy cum.	4.4	5.2	5.6	4.1	6.8	5.4	6.9	8.9	8.1	8.9	8.9
CPI	% yoy eop	8.1	7.2	9.0	12.1	13.2	16.0	16.3	13.3	15.7	14.7	13.3
PPI	% yoy eop	11.6	13.6	16.8	17.1	13.5	16.2	18.5	14.2	19.0	18.2	14.2
Merchandise export (USD)*	% yoy	6.3	23.3	18.5	44.4	69.2	56.0	44.9	--	19.8	-19.1	--
Merchandise import (USD)*	% yoy	20.8	23.7	23.8	42.4	56.5	55.3	53.1	--	23.1	-11.4	--
Merchandise trade balance (NBB data)	USD m cum.	-836	-1563	-2304	-3858	-647	-2049	-3835	--	-4470	-4995	--
Current account	USD m cum.	-641	-1152	-1652	-2944	-433	-1411	-2920	--	--	--	--
Current account	% GDP cum	-7.0	-5.8	-5.1	-6.6	-3.6	-5.5	-6.6	--	--	--	--
International reserves	USD m eop	1565	2344	2155	4182	4746	4618	4120	3467	4052	3775	3467
Monetary base	% yoy eop	22	29	25	38	59	54	48	12	69	42	12
Lending rate**	% p.a. aop	14	11	12	12	11	10	11	14	12	14	15
Exchange rate (official)	USD aop	2141	2145	2147	2152	2148	2136	2114	2147	2114	2137	2190
Exchange rate (official)	EUR aop	2805	2890	2948	3115	3215	3339	3183	2827	2830	2719	2935

\* Growth rates in value terms (source: Ministry of Statistics and Analysis).

\*\* Nominal rate of commercial banks for new loans for legal entities in national currency.

Sources: Ministry of Statistics and Analysis, NBB.

Key Economic Indicators		2002	2003	2004	2005	2006	2007	2008
Nominal GDP*	BYR trn	26.613	36.565	49.991	65.067	79.231	96.047	128.828
Nominal GDP**	USD bn	14.5	17.7	23.1	30.2	36.9	44.8	60.3
GDP Growth	% yoy	5.0	7.0	11.4	9.4	9.9	8.6	10.0
Industrial production	% yoy	4.5	7.1	15.9	10.5	11.3	8.7	10.8
Agricultural production	% yoy	0.7	6.6	12.6	1.7	6.1	4.4	8.9
CPI	% yoy aop	42.6	28.4	18.1	10.3	7.0	8.4	14.8
CPI	% yoy eop	34.8	25.4	14.4	8.0	6.6	12.1	13.3
PPI	% yoy aop	41.4	37.5	24.1	12.1	8.3	16.2	15.6
PPI	% yoy eop	42.7	28.1	18.8	10.0	8.5	17.1	14.2
Exports (gs, USD)	% yoy	9.8	24.4	35.5	15.9	22.3	24.0	--
Imports (gs, USD)	% yoy	9.0	25.0	40.4	3.8	33.2	28.0	--
Current account	USD m	-334	-426	-1193	436	-1448	-3060	--
Current account	% GDP	-2.3	-2.4	-5.2	1.4	-3.9	-6.8	--
FDI (net)	USD m	453	170	163	303	351	1770	--
International reserves	USD m	457	474	770	1297	1383	4182	3467
Fiscal balance	% GDP	-0.2	-1.6	0.0	-0.6	2.2	0.6	--
Domestic public debt	% GDP eop	5.4	5.5	5.7	5.8	6.5	6.4	--
External debt (total)	% GDP eop	27.0	23.7	21.4	17.9	18.6	28.4	--
Monetary base	% yoy eop	32	50	42	74	20	38	12
Exchange rate (official)*	USD aop	1784	2075	2160	2154	2145	2146	2136
Exchange rate (official)*	USD eop	1920	2156	2170	2152	2140	2150	2200
Spread***	% aop	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Spread***	% eop	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (official)*	EUR aop	1690	2353	2684	2681	2692	2937	3135
Exchange rate (official)*	EUR eop	1989	2695	2956	2550	2817	3167	3077

\* On January 1, 2000 the Belarusian ruble was denominated 1:1000. All figures for 1999 are given in 'new' Belarusian rubles.

\*\* For the period of 1999–2000, GDP in USD is calculated by using the market (unofficial) exchange rate (source: IPM Research Center).

\*\*\* Spread between the black market and official (NBB) exchange rates (source: IPM Research Center).

Sources: Ministry of Statistics and Analysis, Ministry of Finance, NBB, IPM Research Center.

#### Notes:

aop	average of period	gs	goods and services
avg	average	trn	trillion
bn	Billion	NBB	National Bank of Belarus
cum.	cumulative	p.a.	per annum
eop	end of period	yoy	year-on-year
m	million	ytd	year-to-date